

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 759 (First Edition)

SHORT TITLE: Retirement System COLAs.

SPONSOR(S): Representative L. Bell

FUNDS AFFECTED: State General Fund for TSERS, CJRS, and LRS; State Highway Fund and other State employer receipts for TSERS; local government funds for LGERS

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS).

BILL SUMMARY: House Bill 759 (First Edition) provides 2.0% cost-of-living adjustments (COLAs) in TSERS, LGERS, CJRS, and LRS, effective July 1, 2015.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON STATE:

Buck Consultants, the actuary for the TSERS, CJRS, and LRS, estimates that the provisions of this bill will have an annual cost in FY 2015-16 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.78%	1.28%	1.60%
General Fund	\$ 77,329,200	\$ 908,800	\$ 57,920
Highway Fund	\$ 2,457,000	\$ 0	\$ 0
Receipt Funds	\$ 33,015,224	\$ 0	\$ 0
Total Annual Cost	\$ 112,801,424	\$ 908,800	\$ 57,920
Increase in Unfunded Liability	\$ 757,800,000	\$ 6,600,000	\$ 400,000

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this bill will have an annual cost in FY 2015-16 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.76%	1.26%	1.56%
General Fund	\$ 75,346,400	\$ 894,600	\$ 56,472
Highway Fund	\$ 2,394,000	\$ 0	\$ 0
Receipt Funds	\$ 32,168,680	\$ 0	\$ 0
Total Annual Cost	\$ 109,909,080	\$ 894,600	\$ 56,472

The figures above assume that no actuarial gains are used to cover the cost of the COLA provisions. TSERS and CJRS have sufficient gains available to cover a portion of the cost of the COLA.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Both Buck Consultants, the actuary for LGERS, and Hartman & Associates, the actuary for the General Assembly, estimate that each 1% COLA requires an increase in the LGERS employer contribution rate of 0.24% of pay. Because the LGERS Board of Trustees has already granted a 0.625% COLA, as authorized under G.S. 128-27(k), the net additional impact of this bill is as follows:

a. Contribution rate increase for 2% COLA	0.48%
b. Contribution rate increase for 0.625% COLA	0.15%
c. Net contribution rate increase due to the bill (a. – b.)	0.33%
d. Estimated active employee compensation	\$5,726,580,000
e. Estimated increase in annual local government contributions due to the bill (c. x d.)	\$18,897,714

Under G.S. 128-27(k), the Board of Trustees is only authorized to grant a COLA to the extent it can be funded by investment gains. 0.625% is the maximum COLA that could be funded with investment gains.

Local governments that participate in LGERS are paying a normal contribution rate of 7.07% on behalf of general employees in FY 2014-15. The normal contribution in the December 31, 2013 valuation, which applies to FY 2015-16, is 6.52% for general employees.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2013 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2013 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	310,370	123,455	566	170
General Fund Compensation	\$9,914M		\$71M	\$4M
Valuation Compensation (Total)	\$13,608M	\$5,556M	\$71M	\$4M
Average Age	45	44	55	57
Average Service	10.6	10.3	13.1	5.9
Inactive Members				
Count	125,513	50,998	53	94

Retired Members				
Count	187,448	57,405	584	311
Annual Benefits	\$3,871M	\$1,039M	\$35M	\$2M
Average Age	70	68	72	76
New Retirees During 2014	11,500	4,400	30	3

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$65,806M	Not meaningful	\$549M	\$25M
Actuarial Value of Assets (AVA)	\$62,364M	\$21,498M	\$507M	\$29M
Market Value of Assets (MVA)	\$62,789M	\$21,784M	\$512M	\$30M
Unfunded Accrued Liability (AL - AVA)	\$3,442M	Not meaningful	\$43M	(\$5M)
Funded Status (AVA / AL)	95%	Not meaningful	92%	119%
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	8.69%	6.52% (non-LEO)	26.37%	1.80%
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	4.25% - 8.55%	5.00% - 5.95%	7.50%
Cost Method	Entry Age Normal	Frozen Entry Age	Projected Unit Credit	Projected Unit Credit
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$	8 year, open, flat \$
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA, except for LRS which is based on GAM-71.				

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Buck Consultants, "Teachers' and State Employees' Retirement System of North Carolina, Report on the Seventy-First Actuarial Valuation Prepared as of December 31, 2013", October 2, 2014, which is available on the Department of State Treasurer website.

Buck Consultants, "North Carolina Local Governmental Employees' Retirement System, Report on the Actuarial Valuation Prepared as of December 31, 2013", October 2, 2014, which is available on the Department of State Treasurer website.

Buck Consultants, "Consolidated Judicial Retirement System of North Carolina, Report on the Actuarial Valuation Prepared as of December 31, 2013", October 2, 2014, which is available on the Department of State Treasurer website.

Buck Consultants, "Legislative Retirement System of North Carolina, Report on the Actuarial Valuation Prepared as of December 31, 2013", October 6, 2014, which is available on the Department of State Treasurer website.

Hartman & Associates, LLC, "1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems", March 10, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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DATE: April 20, 2015



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